

# Wyoming Economic Challenges in 2016 and a few ideas about what we can do to better our State's future.

Rock Springs Chamber  
of Commerce  
August 8, 2016

A snapshot of Wyoming's economy and an outline of a few opportunities for local governments and the State as a whole in the coming year to meet the challenges of different times.

-Mark Gordon, Treasurer

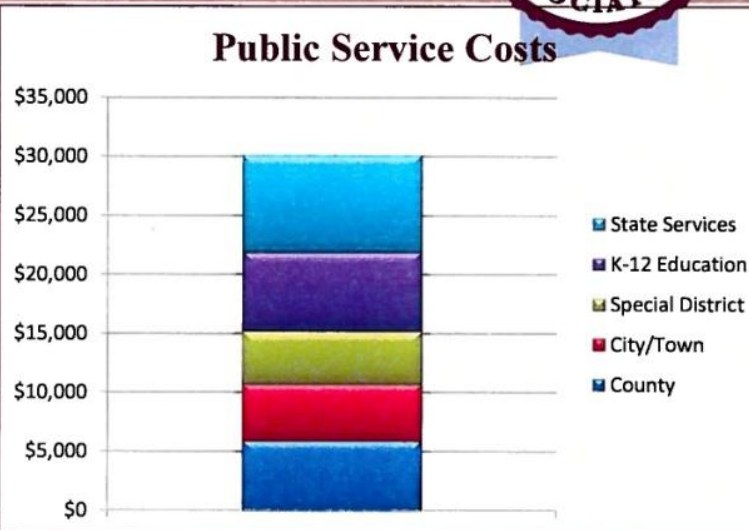
# Direct Tax Collections & Public Service Costs 2014

For a 3-person family with income of \$60,000 and owning a home valued at \$160,000



## Personal Tax Collections

Retail Sales	\$ 1,000	} <b>\$ 2,960</b>
Gasoline	\$ 200	
Cigarettes	\$ 100	
Alcohol	\$ 10	
Vehicle Registration	\$ 450	
Property Tax	\$ 1,200	



## Public Service Costs

County	\$ 5,900	} <b>\$30,100</b>
City/Town	\$ 4,800	
Special District	\$ 4,500	
K-12 Education	\$ 6,700	
State Services	\$ 8,200	

Courtesy of the Wyoming Economic Analysis Division



We do alright as citizens of Wyoming paying some of the lowest taxes in the country and enjoying 10 times the benefits which we owe to our extraordinary mineral wealth.

Thank goodness we set some aside for the future because times have not always been so good.



# Wyoming's Investments Save Taxpayers More than \$1500 in taxes every year.

In 2015 we returned \$1,750 per Wyoming resident  
\$1.02 billion / 580,000 people

	FY 15 (\$ Millions)		FY 14	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Permanent Mineral Trust Fund	\$6,848.9	\$7,172.2	\$6,368.3	\$6,979.1
Permanent Land Funds				
- Common School Perm Land Fund	3,261.7	3,405.3	2,782.3	3,046.5
- University Permanent Land Fund	19.8	20.1	19.3	21.3
- Remaining Permanent Land Funds	175.1	182.7	157.0	171.6
Hathaway Scholarship Fund	552.6	571.3	533.4	575.7
Higher Education Endowment Fund	114.1	118.0	112.2	121.1
Workers Compensation Fund	1,773.0	1,790.8	1,628.0	1,719.5
Tobacco Settlement Fund	84.5	83.4	81.6	82.0
State Agency Pool	<u>6,417.6</u>	<u>6,352.1</u>	<u>6,294.4</u>	<u>6,336.4</u>
Total	\$19,247.3	\$19,695.8	\$17,976.5	\$19,053.2

<u>Investment Income: Distributions by Fund</u>		
	<u>FY 15</u>	<u>FY 14</u>
Permanent Wyoming Mineral Trust Fund	\$494,234,268	\$395,337,466
Common School Permanent Land Fund	216,095,239	172,808,534
University Permanent Land Fund	1,418,395	1,098,504
Remaining Permanent Land Funds	11,774,102	9,360,997
Hathaway Scholarship Endowment Fund	35,858,772	30,959,099
Higher Education Endowment Fund	7,642,287	6,727,157
Workers Compensation Fund	89,494,414	74,079,618
Tobacco Settlement Fund	2,326,048	1,690,078
State Agency Pool	<u>156,512,338</u>	<u>120,112,251</u>
TOTAL	\$1,015,355,83	\$812,173,704

\* "Distributed income" is net of management fees paid and accrued.

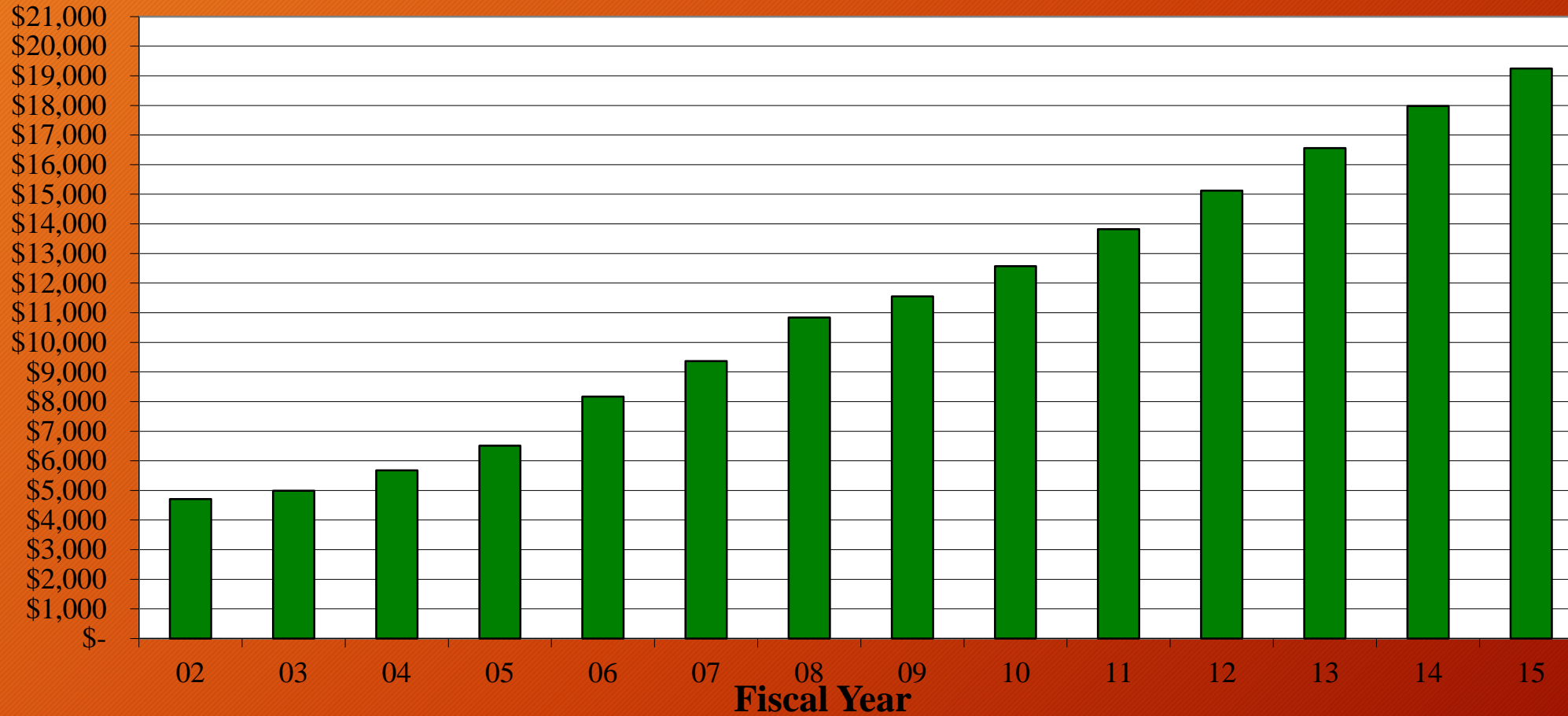
Annual Report  
available at:  
[statetreasurer.wyo.gov](http://statetreasurer.wyo.gov)

# It had been the best of times

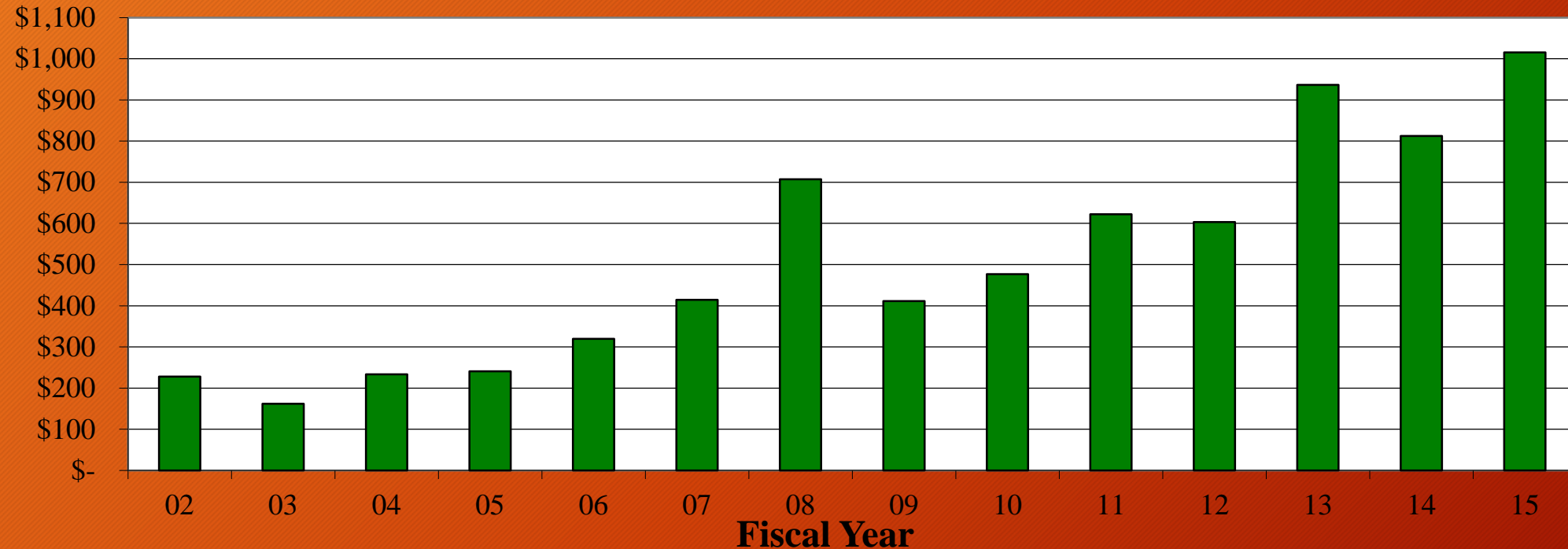
- Wyoming saw extraordinary growth in revenues from Natural Resources.
- The Stock Market was generally kind especially after 2010.
- Fixed income was great too - much better than today.
- ❖ After some lean times (1990s), Wyoming got serious about budgets.



# Wyoming's Total State Portfolio Grew a lot after 2002

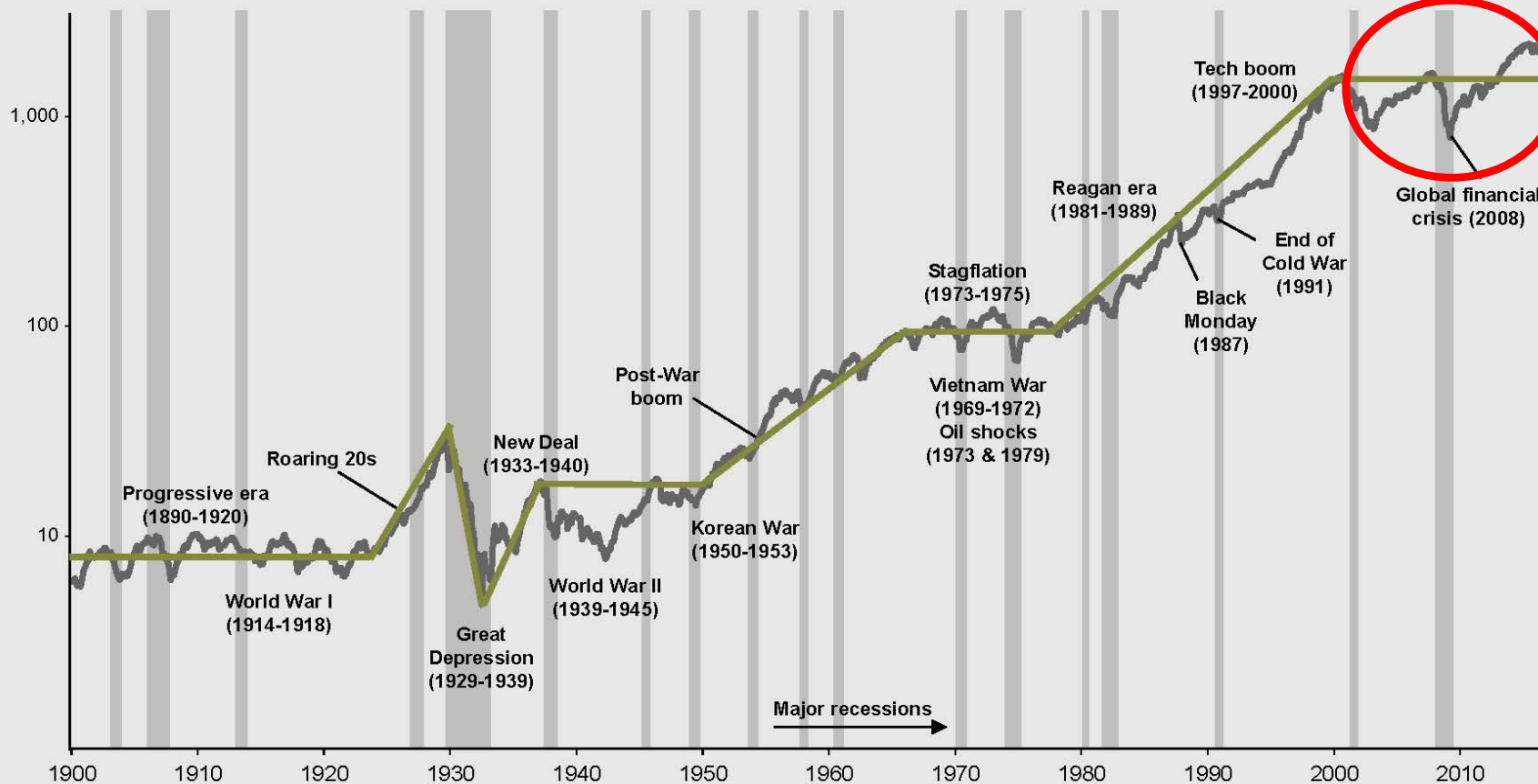


Earnings (in millions of \$) also grew as our investments threw off more income. No wonder we felt so good.



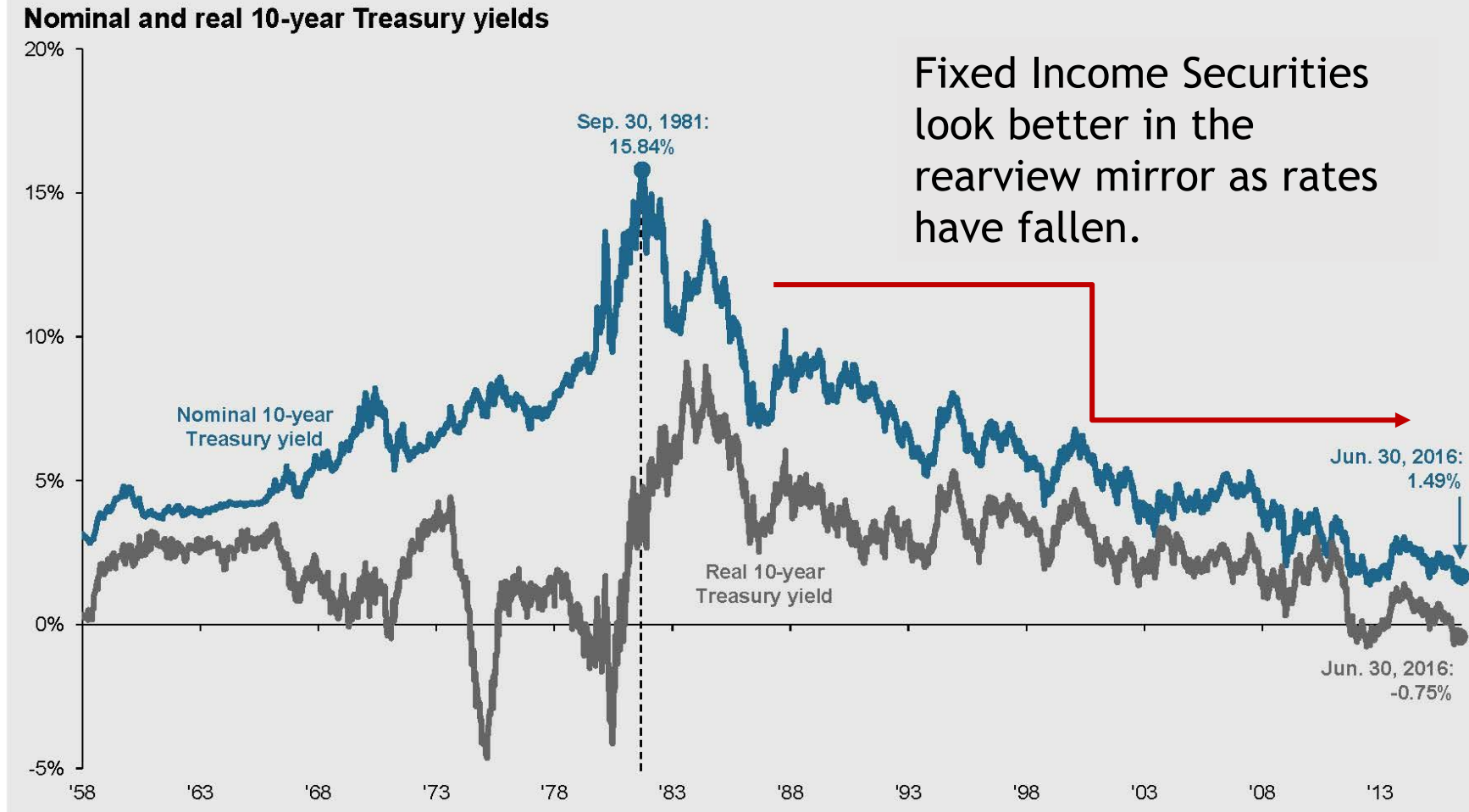
## S&P Composite Index

Log scale, annual



The last 15 years have been ok too.

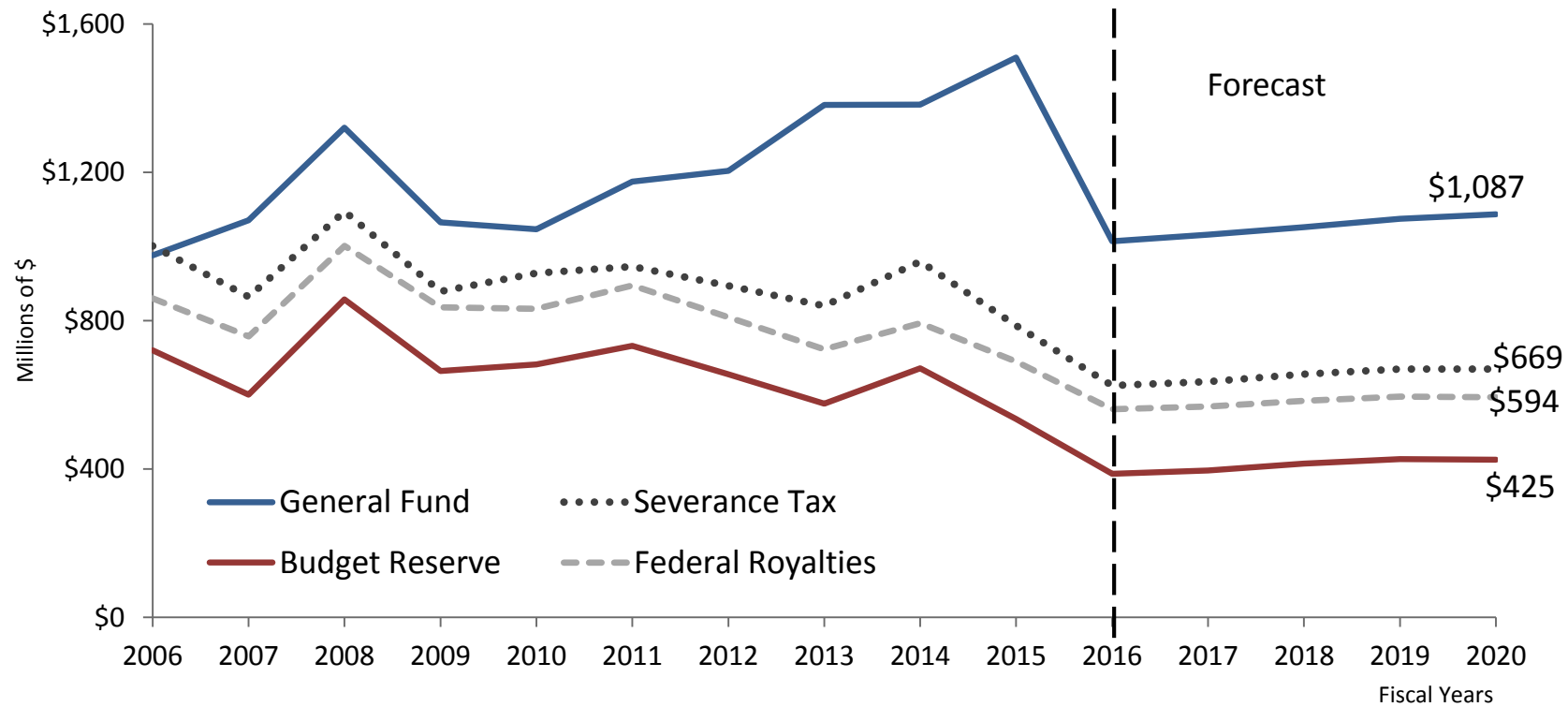
Source: FactSet, NBER, Robert Shiller, J.P. Morgan Asset Management.  
Data shown in log scale to best illustrate long-term index patterns.  
Past performance is not indicative of future returns. Chart is for illustrative purposes only.  
Guide to the Markets – U.S. Data are as of June 30, 2016.



Source: BLS, Federal Reserve, J.P. Morgan Asset Management.  
Real 10-year Treasury yields are calculated as the daily Treasury yield less year-over-year core CPI inflation for that month except for June 2016, where real yields are calculated by subtracting out May 2016 year-over-year core inflation.  
Guide to the Markets – U.S. Data are as of June 30, 2016.



# Major Revenue Streams — Historical and Projected



Very large investment gains were realized (but not forecasted) in 2008, 2011, 2012, 2013, 2014, and 2015. For FY 2015, investment income accounted for 40.3% of all General Fund revenues.

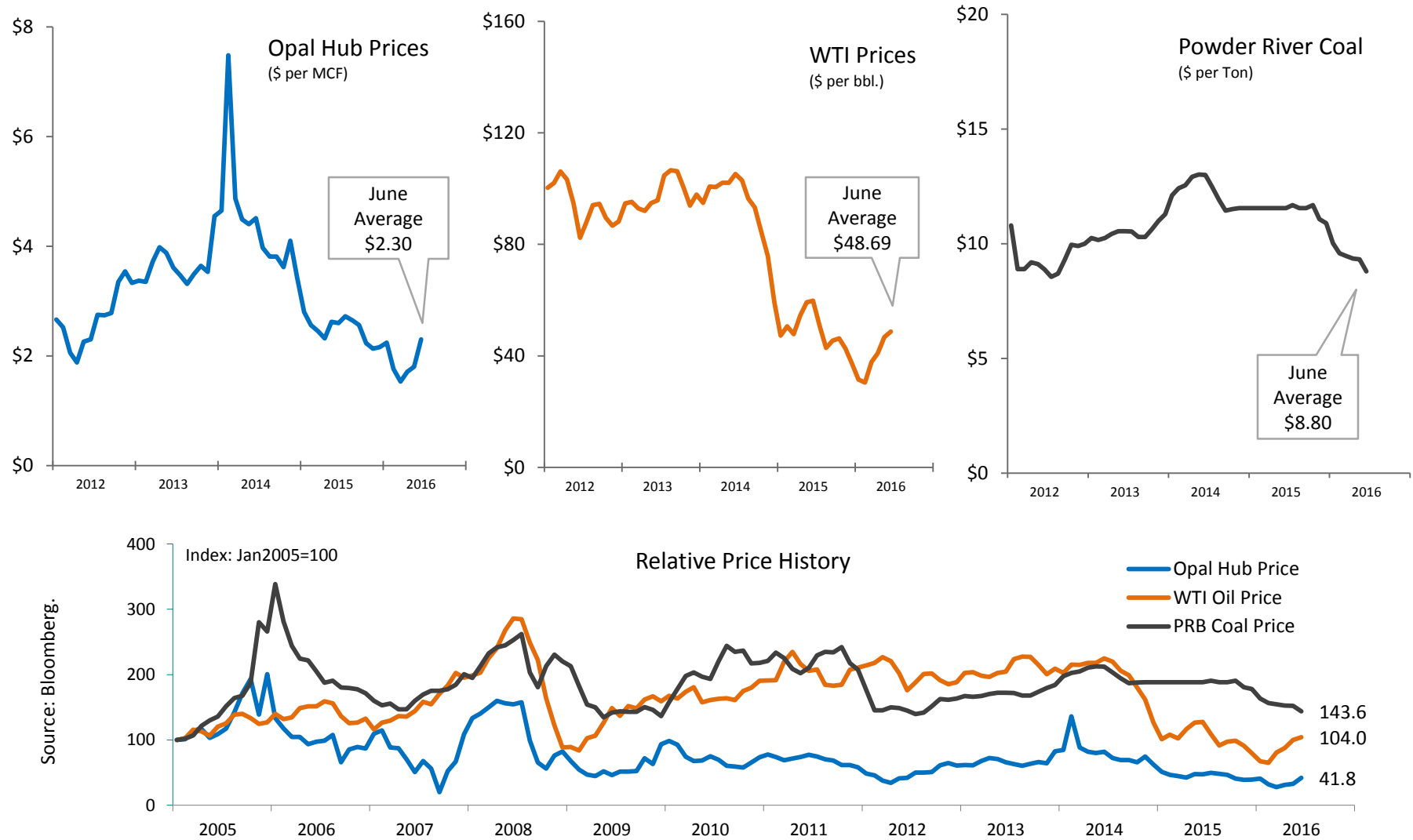
Source: January 2016 CREG Forecast.

# 2016 was a “Perfect Storm”

- Commodity Price Collapse
- Very low yields for fixed income
- 2015 3<sup>rd</sup> worst year for investors globally
  - Wyoming hung in there just a bit better
- Uncertainty
  - Regulation
  - Central Bank Activity
  - China
- Now we have
  - EU and Brexit
  - And an Election



# Natural Gas, Crude Oil, and Coal Prices





## Five Worst Years Since 1926

### Stocks, Bonds, Cash, and Commodities

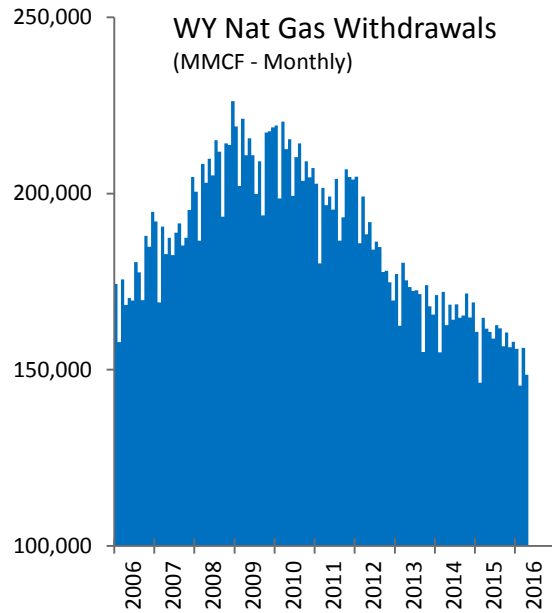
Year	U.S. Stocks	Long-Term Bonds	Cash	Commodities	Best Return
1937	-35.0%	0.2%	<b>0.3%</b>	-10.4%	0.3%
1931	-43.4%	-5.3%	<b>1.1%</b>	-20.6%	1.1%
2015	<b>1.4%</b>	-3.7%	0.1%	-23.1%	1.4%
1953	-1.0%	<b>3.6%</b>	1.8%	-3.1%	3.6%
2001	-11.9%	3.7%	<b>3.9%</b>	-16.3%	3.9%

Source: Doubleline (U.S. stocks per S&P 500 Index, Long-Term bonds per 30 Year U.S. Treasury Bond, Cash per 3-Month U.S. Treasury Bill, and Commodities per Commodity Research Bureau spot index).

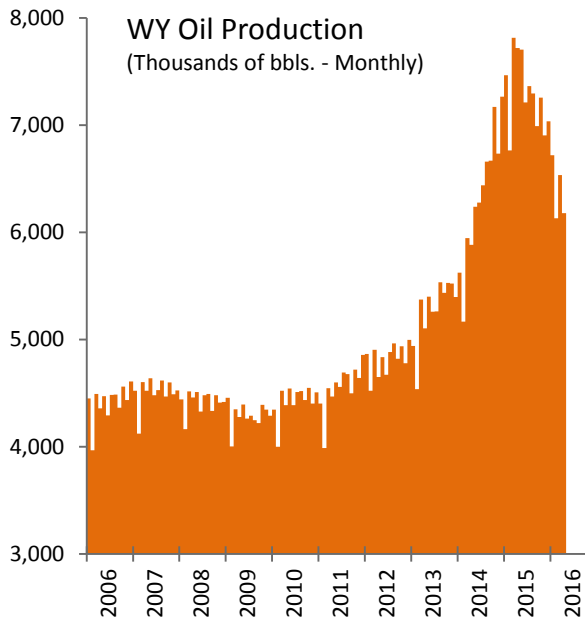
And Wyoming?



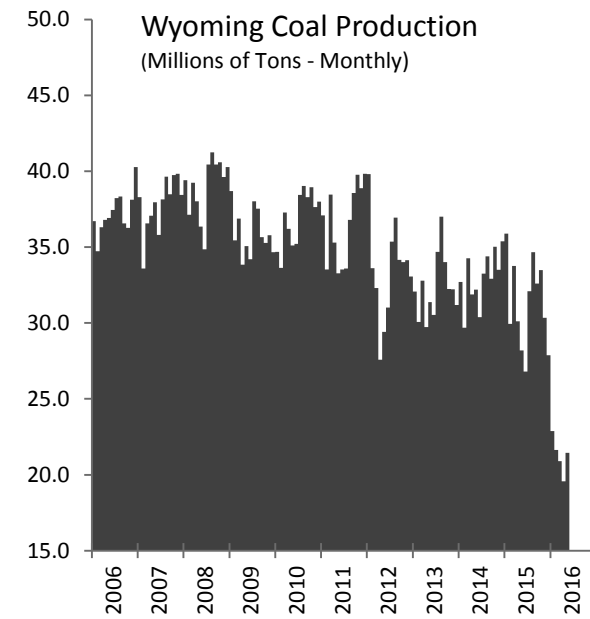
# WY Natural Gas, Crude Oil, and Coal Production



Cumulative Change YTD:  
Apr 2016 vs. Apr 2015  
**-4.3%**



Cumulative Change YTD:  
Apr 2016 vs. Apr 2015  
**-14.1%**



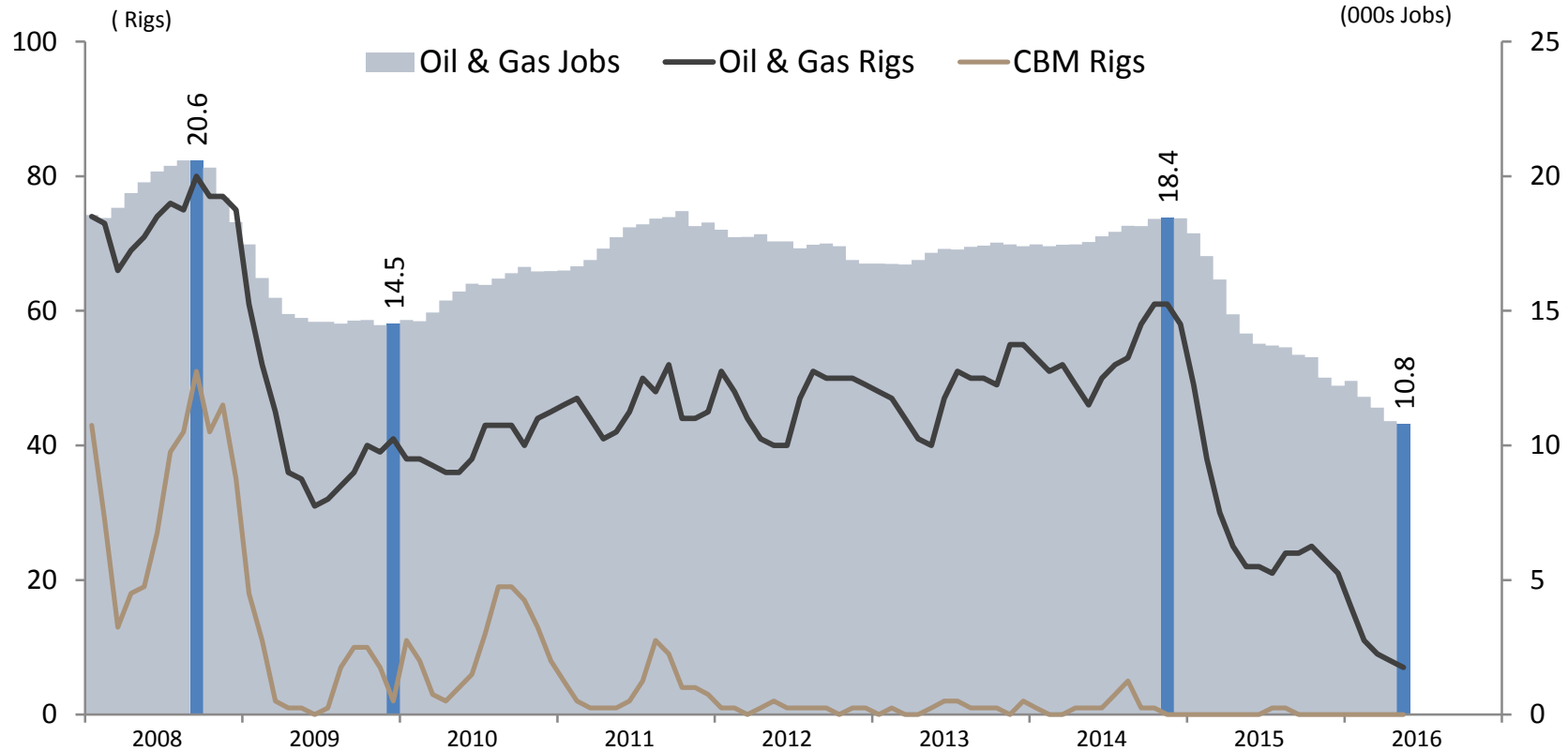
Cumulative Change YTD:  
May 2016 vs. May 2015  
**-32.6%**

Source: Energy Information Administration.



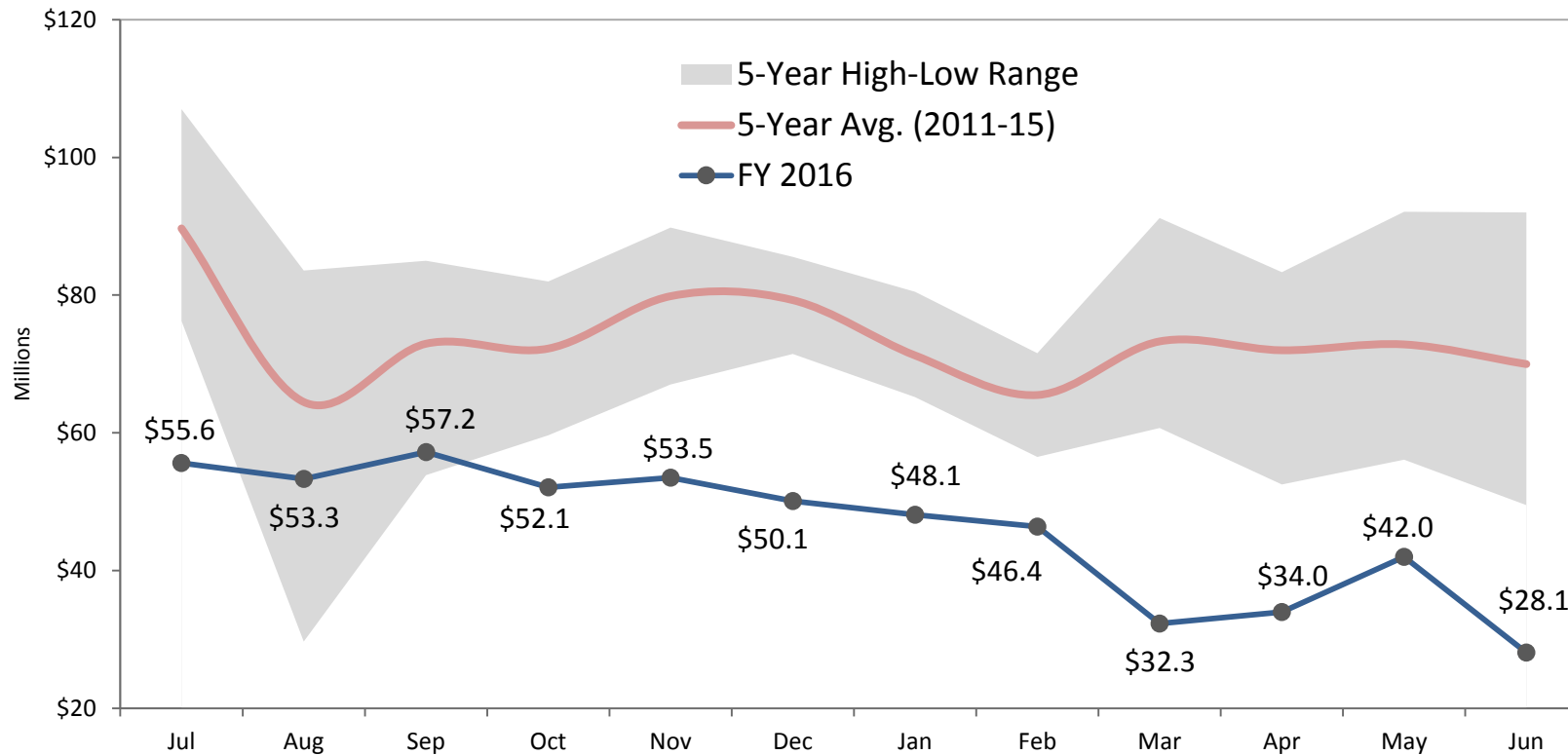


# WY Oil & Gas Jobs and Rig Counts



Source: WY Oil and Gas Conservation Commission; U.S. Bureau of Labor Statistics.

# WY Statewide Severance Tax Collections

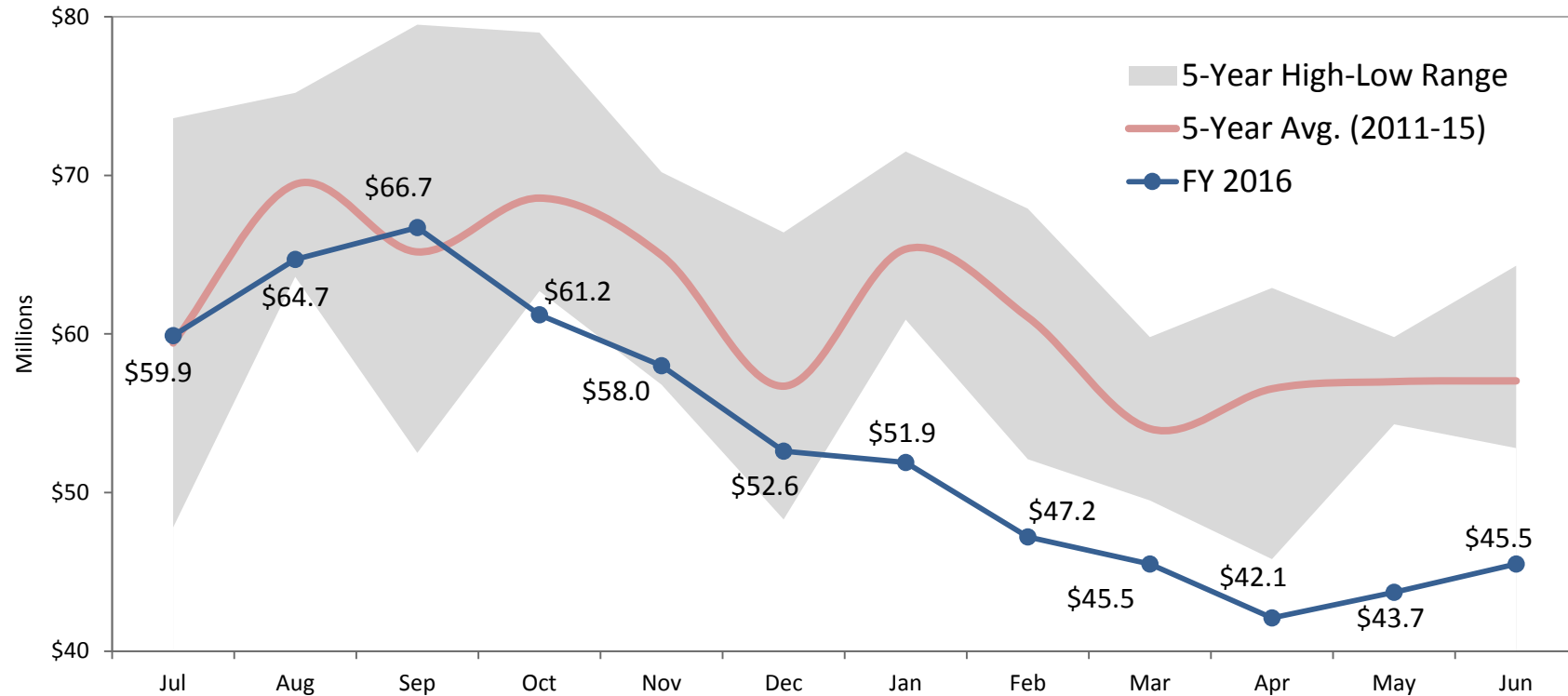


Fiscal Year 2016 severance tax collections finished the year \$294.0 million (-34.7%) behind fiscal 2015.

Source: WY Dept. of Revenue.

Note: Includes severance taxes collected on all minerals in Wyoming on a cash receipts basis.

# WY Statewide 4% Sales and Use Tax Collections



After 12 months, FY16 total collections finished the year \$168.6 million (-20.9%) behind fiscal 2015. **Campbell, Converse, and Natrona** counties accounted for 67.4% of the decline.

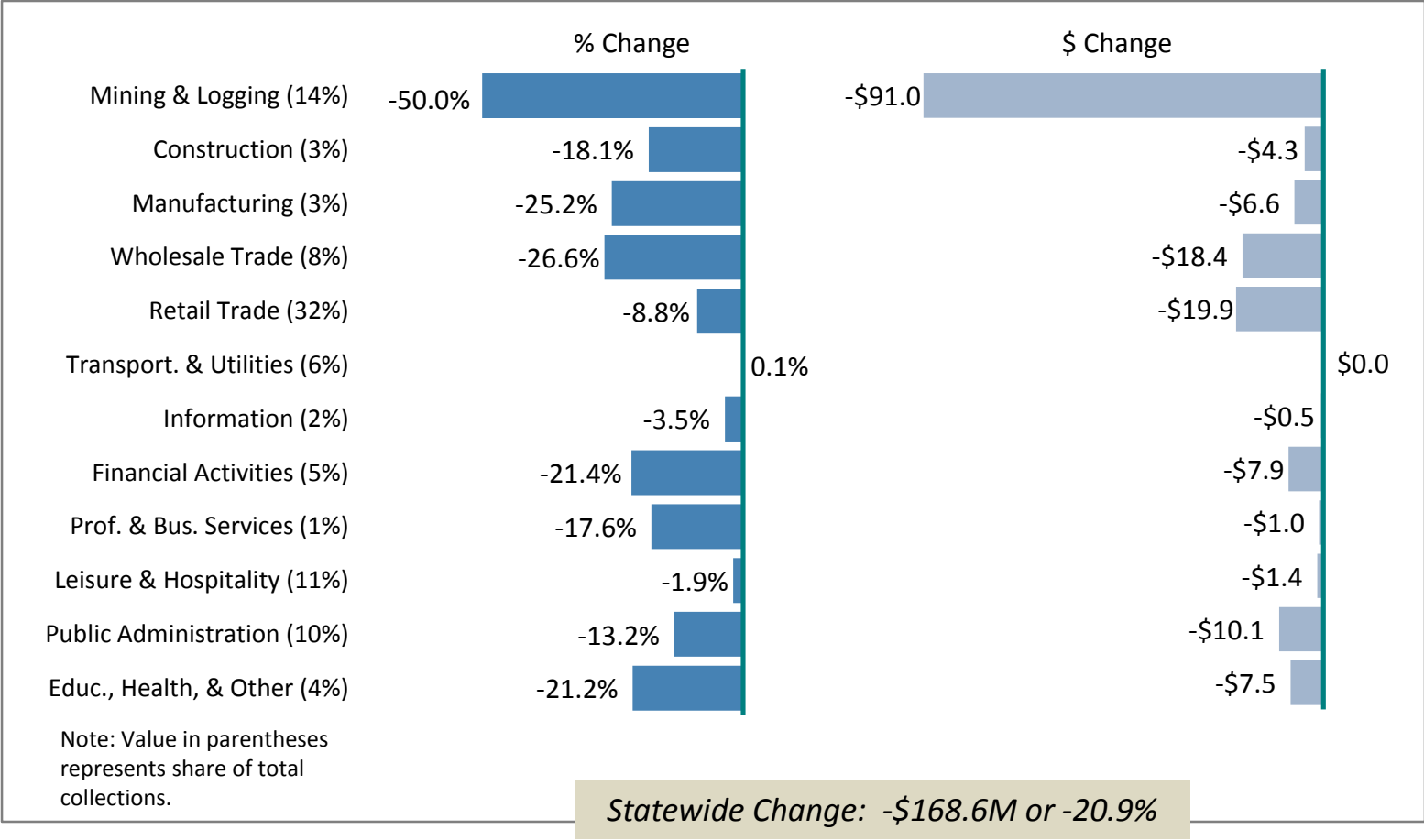
Source: WY Dept. of Revenue.

Note: Includes both the state and local shares of the state-wide 4% sales and use tax collections on a cash receipts basis.



# WY Statewide 4% Sales and Use Tax Collections by Industry

Change in Percent and Dollars (Millions)  
Final Fiscal 2016 vs. Fiscal 2015 — Twelve Months of Collections

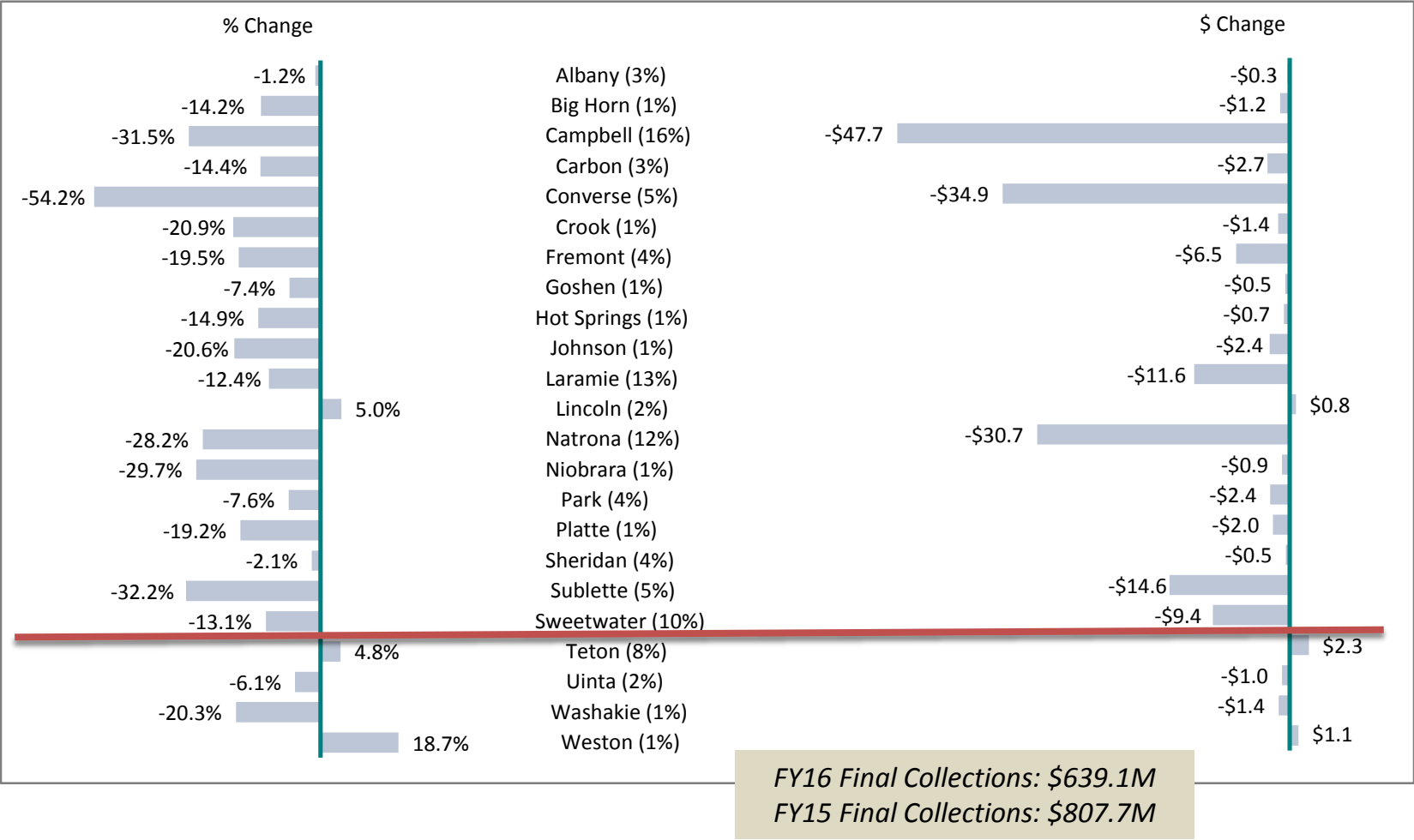


Source: WY Dept. of Revenue.  
Note: Includes both the state and local shares of the state-wide 4% sales and use tax collections on a cash receipts basis. The Public Administration sector reflects taxes collected on the sale of new and used vehicles.



# WY Statewide 4% Sales and Use Tax Collections by County

Change in Percent and Dollars (Millions)  
Final Fiscal 2016 vs. Fiscal 2015 — Twelve Months of Collections



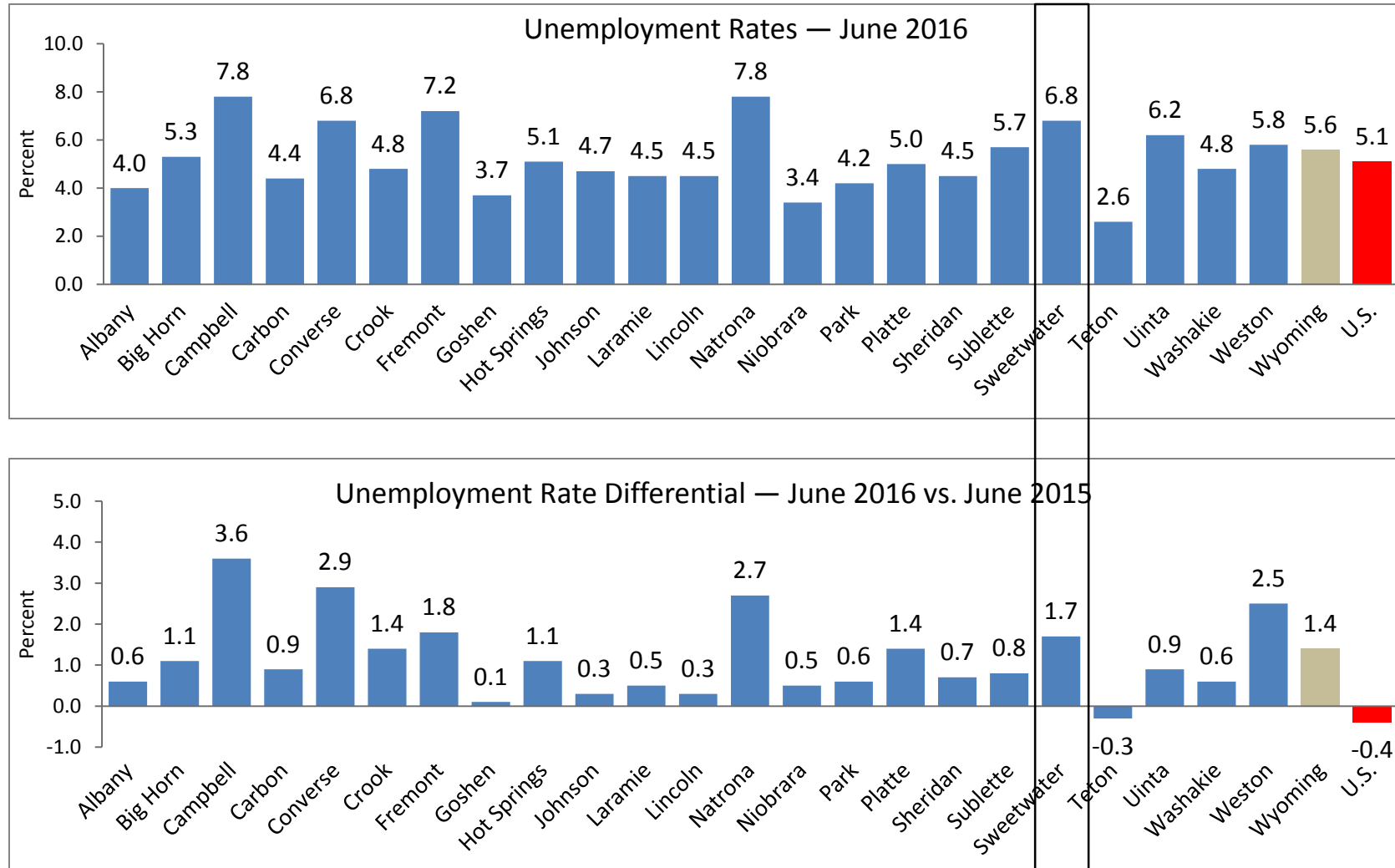
Source: WY Dept. of Revenue.  
Note: Includes both the state and local shares of the state-wide 4% sales and use tax collections on a cash receipts basis. Value in parentheses represents share of total collections.



# WY Unemployment Rates

## June 2016 vs. June 2015 (not seasonally adjusted)

Source: U.S. Bureau of Labor Statistics.





# National Park Recreation Visits to WY

## Year-to-Date: June 2015 vs. June 2016



National Park Recreation Visits	YTD June 2015	YTD June 2016	Difference	
Bighorn Canyon NRA	46,502	46,109	-392	-0.8%
Devils Tower NM	146,114	165,651	19,537	13.4%
Fort Laramie NHS	21,308	22,189	881	4.1%
Fossil Butte NM	6,835	7,683	848	12.4%
Grand Teton NP	1,016,095	1,110,693	94,598	9.3%
John D. Rockefeller, Jr. MEM PKWY	385,701	427,848	42,147	10.9%
Yellowstone NP - WY Entrances	636,439	701,715	65,276	10.3%
<b>Wyoming Total</b>	<b>2,258,994</b>	<b>2,481,888</b>	<b>222,894</b>	<b>9.9%</b>

Source: National Park Service Public Use Statistics Office.



# How about the Lottery's \$2,035,865.24?

April Distribution - (1st)	
Sweetwater County	\$ 21,291.81
Bairoil	\$ 312.46
Granger	\$ 409.74
Green River	\$ 36,891.45
Rock Springs	\$ 67,905.03
South Superior	\$ 990.45
Wamsutter	\$ 1,329.45
Total	\$ 129,130.39

July Distribution	
Sweetwater County	\$ 17,892.86
Bairoil	\$ 262.58
Granger	\$ 344.33
Green River	\$ 31,002.23
Rock Springs	\$ 57,064.91
South Superior	\$ 827.39
Wamsutter	\$ 1,117.22
<u>Total</u>	<u>\$ 108,511.52</u>

# Wyoming Portfolio Returns 2015 vs 2016

- |                                     |                |
|-------------------------------------|----------------|
| • 2015 Dividend and Interest Income | \$422,603,959  |
| • 2016 Dividend and Interest Income | \$443,470,959  |
| • Difference                        | \$ 20,867,000  |
| • 2015 Realized Gains               | \$619,680,999  |
| • 2016 Realized Losses              | -\$ 24,288,206 |
| • Difference                        | -\$643,969,205 |
- 2015 in Dividends, Interest, and Gains the State cleared > \$1.04 Billion
  - 2016 though Dividends and Interest grew, Gains evaporated. -- There is a lesson!

*So how did it go in Cheyenne last Session?*



We have to have some humor because truly these are not easy times, still Wyoming has does have opportunities...



**So what do we do?**

**(Warren Buffett might  
suggest...)**

**Don't save what is left after  
spending,**

**But spend what is left after  
saving.**



# Efforts: First we worked to Enhance Local Government Opportunity then more

- ✓ Revised Wyoming Investment Statutes to incorporate new securities through review process of the SLIB.
  - Expanded opportunities to cooperate bonds outlined in Master Investment Policy posted on Website: [statetreasurer.wyo.gov](http://statetreasurer.wyo.gov)
  - Other projects - exploring a longer less-liquid option along the lines of our Wyo-Star program
- We are working with the Legislature and others to review and update our **Spending Policies** - those policies governing expectations about what Investments will return and how we protect their purchasing power against inflation.



# What else can the Treasurer do?

- Be ruthless on fees -- already we have made headway to save more than \$4 million
- Take a hard look at our asset allocations by plan and match them up with needs and expectations
- Review all our processes to make sure we are as efficient as we can be
- Work with the Auditor to assure improve transparency of the State's finances
- Understand the need to reinvest gains where possible especially since natural resource revenues are challenged



# Is “cheap” really less expensive or even good business? Building a better Office!

- There are risks to being too cheap:
  - We are one of the biggest Sovereign Wealth Funds in the world, our portfolio has grown 300% but we have not. Without adequate staff and technology, we place our nest egg in peril.
  - Every basis point saved on 19 billion dollar portfolio means \$1.9 million more for Wyoming
- Need more of a “foundation” model for Hathaway and education funds.
- Better, more robust accounting, especially in the SAP -- WWNRT, Cultural Resource Trust, LSRA, WYDOT and G&F Trusts, etc.
- Implement best practices including expanded capabilities in house to address lacks of capacity on accounting, banking, and investment fronts.





*I heard something about  
a Constitutional  
Amendment coming up  
this fall. What would  
that do?*

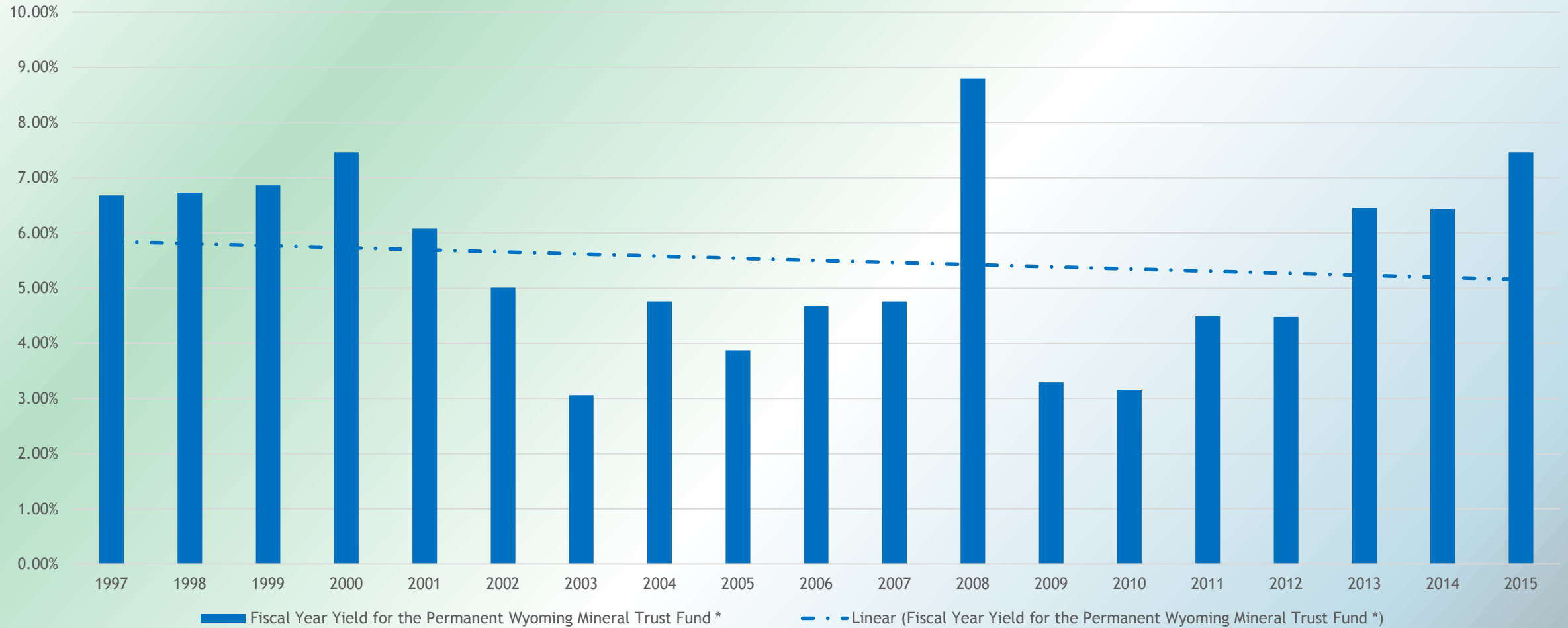


Comparison study of yield if non-Permanent funds were invested like the PMTF\*



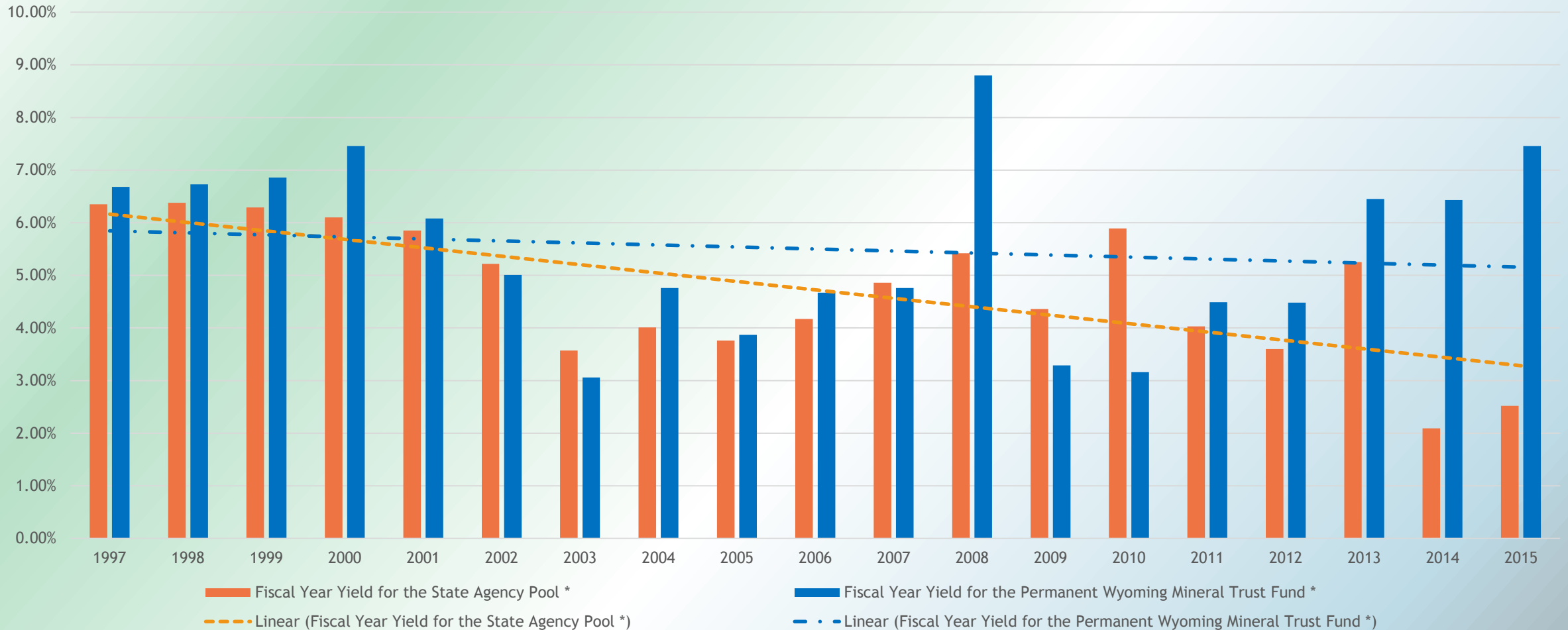
State Agency Pool Plan constitutionally limited to the returns from fixed income

## Comparison study of yield if non-Permanent funds were invested like the PMTF\*



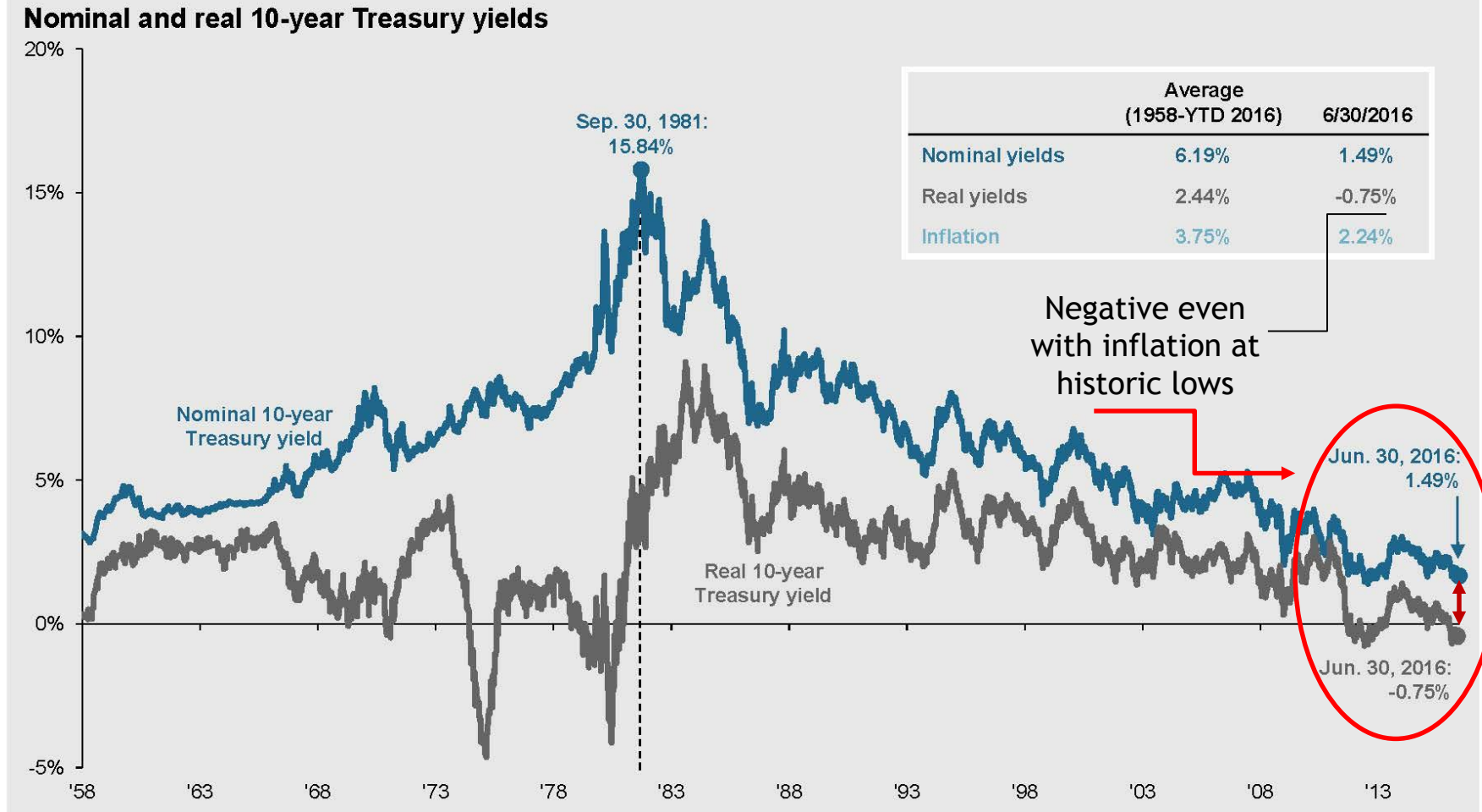
Returns on Permanent Funds can invest in up to 55% equity

## Comparison study of yield if non-Permanent funds were invested like the PMTF\*



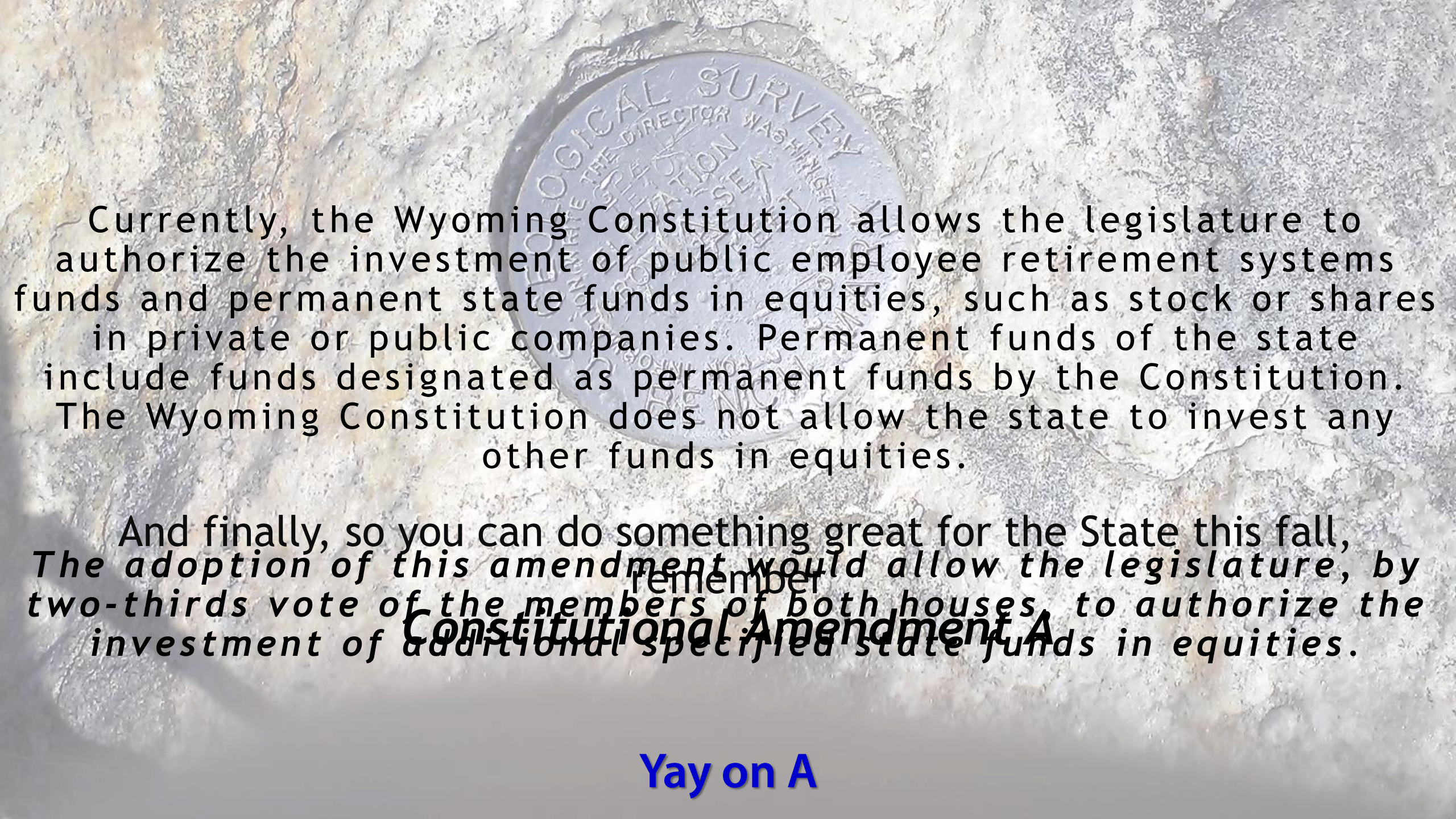
\*Although if we had been able to invest the State Agency Plan funds more like the Permanent funds they would not have been invested exactly the same; still they might have had some equity exposure. If the better returns had compounded, Wyoming would most likely have been substantially better off today and arguably better positioned defensively for the future. In these lower rate for longer times with the possibility of rates rising, Wyoming needs to think long and hard about how to preserve its capital not look to spend the earnings.





Source: BLS, Federal Reserve, J.P. Morgan Asset Management.  
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Currently, the Wyoming Constitution allows the legislature to authorize the investment of public employee retirement systems funds and permanent state funds in equities, such as stock or shares in private or public companies. Permanent funds of the state include funds designated as permanent funds by the Constitution. The Wyoming Constitution does not allow the state to invest any other funds in equities.

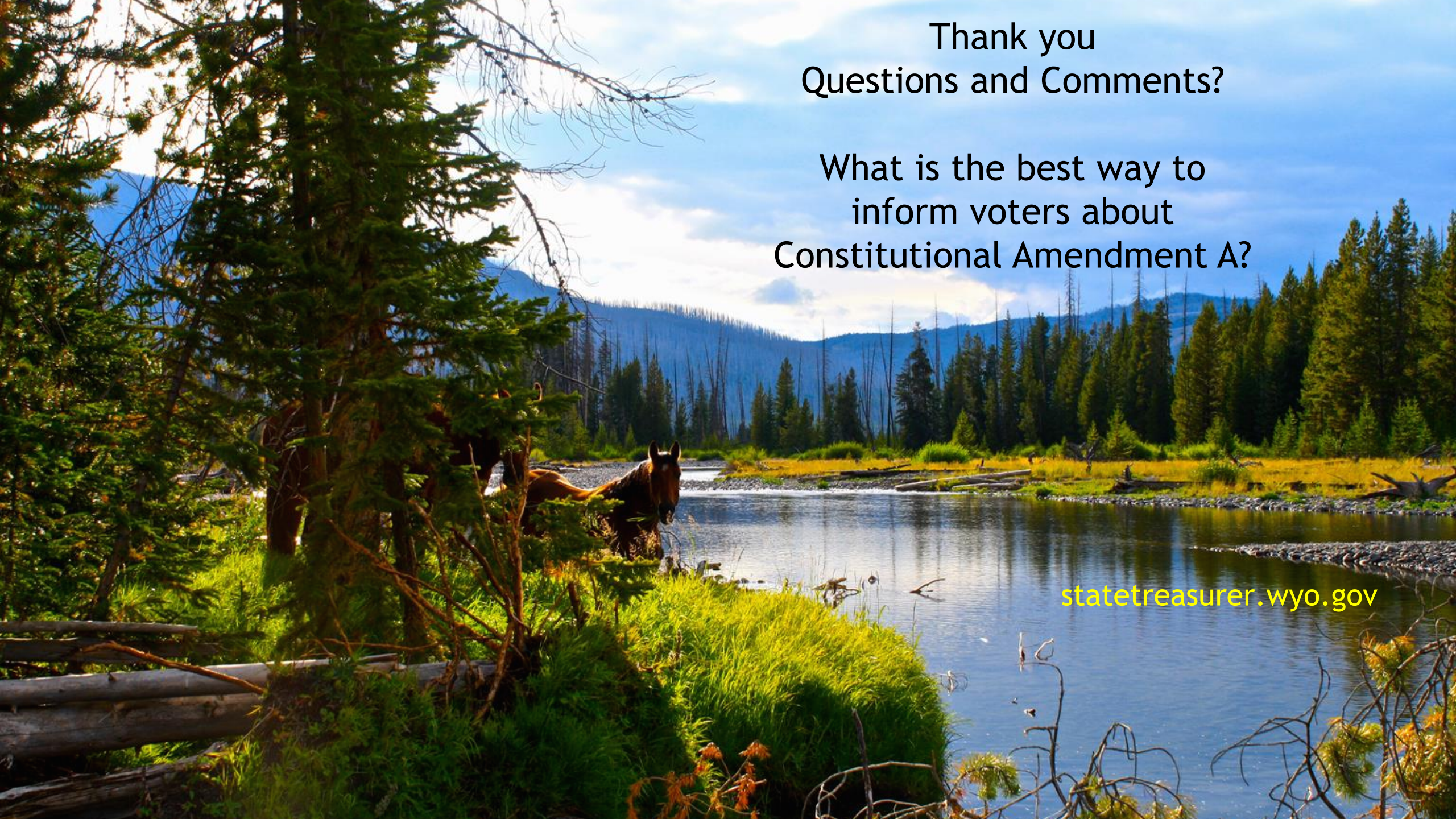
And finally, so you can do something great for the State this fall, *The adoption of this amendment would allow the legislature, by two-thirds vote of the members of both houses, to authorize the investment of additional specified state funds in equities.*

**remember**

**Constitutional Amendment A**

**Yay on A**





Thank you  
Questions and Comments?

What is the best way to  
inform voters about  
Constitutional Amendment A?

[statetreasurer.wyo.gov](http://statetreasurer.wyo.gov)